



Proceedings of GLOGIFT 12
July 30 – August 1, 2012
University of Vienna, Austria
pp. 958-968

Experience Economy and Its Manifestations with Flexibility of Information Technologies.

Rajesh Pathak¹ and R.C Pathak²

Abstract

After BRIC and BRIICS countries and the emerging economies, the “experience economy” has gained immense importance world over. Co-creation of value system and learning from the experience of customers is the truly knowledge - based learning, which is the real requirement today in the age of turbulent economy as well as upheaval obtaining all over the world.

‘Experience economy’ deals normally with the economy in which products are differentiated through the quality of the ‘consumer experience’-which is primarily customer -oriented.” The experience economy traverses through commodity, goods, and services, experiences, and transformations parameters. Experiences are as distinct from services, as services are from goods. It will be observed that while commodities are fungible (they are what they are), goods ‘tangible’ services ‘intangible’ and experiences are ‘memorable.’

In the present paper progression of “economic value” and ‘valuable intelligences’ practical model will be evolved and briefly discussed suitably. How a person learns from making cake at home with wheat, butter, sugar, flour, eggs, milk, cocoa etc. at nominal cost and then learning to order it to local bakeries, supermarket, malls etc. by outsourcing for birth-day parties and so on- is the experience of services . Graduating from such experiences the people learn to outsource events as local parties, farewells, staff get-togethers, reception, marriages etc. by simply ordering to such event organizations, thus saving energy, time, labour, waste-full efforts etc.

The above events may not be that successful without flexible technologies and ITES infra-structure. The manifestations of experience economy, co-creation of value, system and learning from customers experience etc. have been discussed in the present paper with suitable case studies.

It is hoped that the paper will evince keen interest among erudite readers and researchers as well of the contextual subject.

Introduction

“Experience economy” is described as the next economy following the agrarian economy, the industrial economy, and the most recent ‘service economy’. The newly identified offering of experiences occurs whenever a company intentionally uses services as the stage and goods as props to engage an individual.

-
1. PRTM Consultant, U.K
 2. Principal, Imperial college of Engg. & Research,Wagholi, PUNE

Experience Economy and Its Manifestations with Flexibility of Information Technologies.

Experiences are events that engage individual in a personal way. (Pine II at all, 1999). While commodities are 'fungible', goods 'tangible' and services 'intangible', experience are 'memorable'. While the work of the experience stager perishes, the value of the experience lingers - traverses towards lasting event – a life time memorable.

Herein, the progression of economic value and experience economy distinctions will be brought out clearly. 'Progression of economic value' will be further taken to the 'transformation stage'. In this paper it will be eventually witnessed that how 'experience economy' works miracles. Once wisdom is injected in the progression, - takes it to higher echelon - even may lead to enlightenment.

The paper also discusses some live case studies, co-creation of experience value system and flexible information technology. Companies must build flexibility into their IT systems and into the entire manufacturing, supply- chain and logistical infrastructure for sustenance-to compete in this economic turbulence and the experience, temporal and spatial space.

The companies have to accept demand volatility and the new found customer power at the point of exchange and the new experience centred-co-creation space. Today this is dire essential condition to compete and survive in the new age of economics of turbulence (Prahalad, *et al*, 2004; Pine, *et al*. 1999). The process mechanism in all the above experience learning is one single-most dominant factor which should be inbuilt, inherent, and rather, incessant in all possibilities or developments of the product (Hammer, 2001; Kotler *et al* 2009.) Economic turbulence creates the problem more complex.

Experience Economy

The term experience economy has been coined specially by Pine II et al, (1999); Schmitt, (2003); and Pathak et al.(2012). Experience economy can be defined as "Experience economy is described as the economy following the agrarian economy, the industrial economy and the most recent service economy".

Or

The experience economy is primarily an advanced service economy which has begun to sell. Mass customization services to theatre using underlying goods and services as props".

Pine II *et al*. (1991) emphasizes that make no mistakes. "Goods and Services are no longer enough. Experiences are the foundations for the future economic growth and the experience economy unfolds the desired performances", Work is theatre-perform for the audience – customers the final destination. Perform and see the difference.

Valuable Distinctions between Experience Economy Parlances

One should clearly understand the meaning and differences of 'commodities, goods, produce, products, services and finally 'experience'.

In economics a commodity is a generic term for any marketable item produced to satisfy wants and needs. 'Commodities' are generally materials extracted from the natural world animal, mineral vegetable etc. 'Soft' commodities are goods that are 'grown', while 'hard' commodities are the ones extracted through mining. Commodities are 'fungible'.

"Goods use commodities as their raw materials, and then standardized them into products converting them into inventory. Goods are 'tangible'.

"Products are similar to goods converted to items through processing- these are 'tangible' goods.

"Produce' are taken and classed into generally agricultural, mineral items etc.

‘Services’: Services are ‘intangible’ activities performed for a particular client e.g. hair, ear or eye examination of customers -it is customized.

“Experiences” are events that engage individuals in a personal way. Experiences are ‘memorable’ - because of highly valued. Table 1 shows the economic distinctions broadly.

Table 1: Economic Distinctions

Sr. No	Economic offerings	Commodities	Goods	Services	Experiences
1	Economy	Agrarian	Industrial	Service	Experience
2	Economic Functions	Extract	Make	Deliver	Stage
3	Nature of offerings	Fungible	Tangible	Intangible	Memorable
4	Key Attribute	Natural	Standardized	Customized	Personal
5	Method of supply	Stored in Bulk	Inventoried after Production	Delivered on Demand	Revealed over a duration
6	Seller	Trader	Manufacturer	Provider	Stager
7	Buyer	Market	User	Client	Guest
8	Factors of Demand	Characteristics	Features	Benefits	Sensations

It will be noted that in US, ‘Agrarian Economy’ was at zenith in 18th century – more than 80% of the work force was employed on farms. But, today less than 3% of the population works on farms. Industrial revolutions have drastically altered this way of life, taking the workers from the farm to the factories ‘(even such as pin-making factory made famous by Adam Smith in his 1776 book. ‘The wealth of the Nations’).

Progression of Economic Values

As will be observed that, earlier old times the Mom used to bake a cake at home from scratch, with commodities as butter, sugar, eggs, flour, milk, cocoa etc. This was costing a dime two or three.

Such commodities became less and less important, as we come to recent past to modern time that Moms are ordering, outsourcing such birth day parties to Bakeries, Super market, malls or Event Organizing Agencies, with better experience, though the cost now has gone from bakeries, wherein Cake was available at \$10-20 to parties charging anything to \$100 \$200 or \$300 or so. But this is causing enormous savings in time, energy and other arrangements like fun and effortless management.

Thus, it will be observed from Figure 1 that a simple saga of Birthday party illustrates the progression of economic value into successive offerings – pure ingredients (commodities) packaged

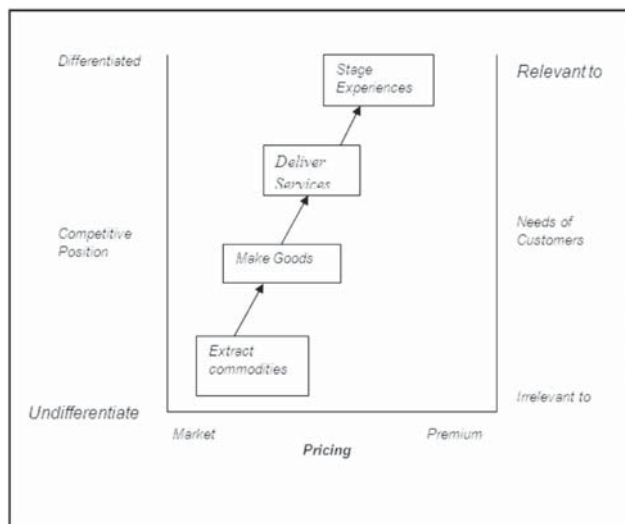


Figure 1: The Progression of Economic Value

mixes (goods), finished cakes (services), and thrown parties (experiences) – greatly enhances the relevant values what the customer wants. Herein, the companies’ stage so many types of experiences differentiating by their offerings-the price charged accordingly has changed distinctively. (Pine II, *et al.*1999).

Spectrum of Co-Creation Experiences

Co-creation of experiential values through personalized integrations i.e. the experience (not the offering) is the basis of unique value for each customer / individual. In the emerging economies, competitions are going to be centralized around –co-creating experiences: resulting in the values, which is truly unique to the individuals. This also makes the traditional system obsolete. This co-creation with imaginative innovation practices decidedly going to be the order of the day today.

Figure 2 depicts the whole gambit of co-creation experiences. The co-creation experiential process / pattern create tremendous opportunities apart from bringing and explicitly imparts better value creation.

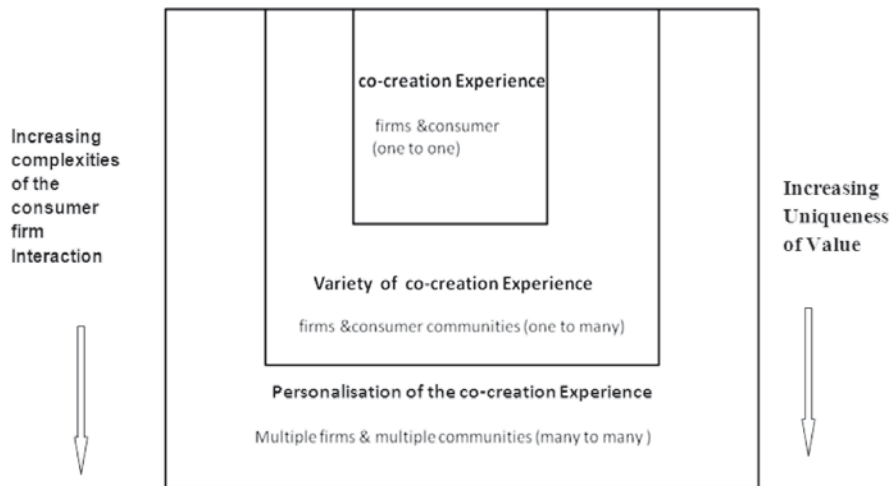


Figure 2: The Spectrum of Co-creation Experiences

The building blocks of co-creations are DART: Dialogue, Access, Risk assessment and Transparency- are the basic components of value co-creation, which professional managers can combine in different creative innovative ways.(Prahalad,*et al.*2004).

New Frontiers of Experience Innovations

The migrations to experience innovation is not an easy work. Firstly much energy of the large firms is focused on product innovation. The design of product itself has to be done with the concept of ‘evolvability’ imbedding intelligence into the design – so that the new product may be able to have any minor changes / mid- course corrections as per the customers’ later requirements. All these are attained by fast innovation practice.

The distinction between the traditional and new perspectives of innovation is summarized in Table 2. Herein, it will be observed that the transition for most firms is from a product/ service based, firm centric view of innovation to an experience- centric co-creation view of innovation.

Table 2: Migrating to Experience

Items	Traditional Innovation	Experience Innovation
1. Innovation goal	Products & Processes	Experience environments
2. Basis of value	Product & service offerings	Co-creation experiences
3. View of value creation	Firm creates value; supply push & demand pull for firm's offerings.	Value is co-created; individual centric co-creation of value
4. Focus of Development	Cost, quality, speed, and modularity	Granularity, extensibility, linkage and evolvability
5. View of Technology	Features & Functions; Technology and systems integration.	Enablers of experiences; Experience integration.
6. Focus of Infrastructure	Support fulfillment of products & services.	Support co-construction of personalized experiences.

The Economic Pyramid

The progression of Economic value forms an Economic Pyramid, as shown in Figure 3. We fully understand customer's psyche that generally we do not want to 'change' the customer but customize their requirement-as co-creation of experience. And, this we call as 'transformation', which guide and eventually create a sustained product.

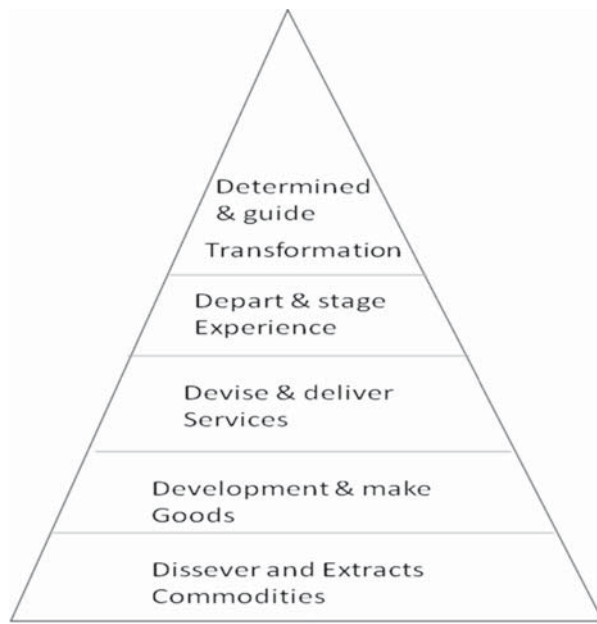
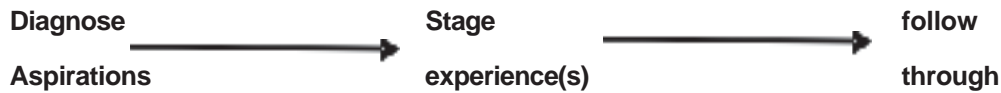


Figure 3: The Economic Pyramid

As is observed that an "insurance" industry passes through three successive economic offerings' Insure (service), assure (experience) and ensure (transformation). The Figure 3 depicts distinctly that transformation elicitor should exactly determine right set of life transforming experiences, whereas experience stages should depict what services engage the guest to create a memorable event etc. Goods manufacturers of course must develop sources for appropriate commodities used as raw materials for the tangible products for users. And finally commodity traders must discover where those materials lie and extract them for the markets they serve.

Transformation elicitors can, at best bring about the right situation under which the proper change can occur meaning staging the right experience that involves the right services and so on. But that is not enough - there is more to guiding transformation. Three phases of guiding transformation goes through the following:



Fundamentals of Process Mechanism

In manufacturing or any other business of product development or even services should understand process and its mechanism fully and correctly. Putting it most simply, processes are what create the results that a company delivers to its customers. Process is defined as:

“Process is a technical term with a precise definition as an organized group of related activities that together create a result of value to customers” (Hammer, 2001) The definition addresses four important ingredients:

- Group of activities & not just one.
- Related and organized.
- Together and,
- Creating result of value.

After studying many companies, why their products have failed, these are: more often than not, two words not complied through. These are: ‘together’ and ‘organized’ Pierre Leroy (Hammer, 2001), gives the following four distinctive features of process:

- Teleological i.e. goal or mission.
- Customer – focused.
- Holistic and,
- Well designed way of workings.

Thus, ‘process thinking’ is needed for work and by all people. Process thinking must be inculcated in all organizations with more innovative thinking - make process into a way of life.

The Progression of Economic Values-Revisited

As has been observed that when we customize an experience, we automatically turn it into a ‘**transformation**’ which company creates on top of experiences. As comparing, Figure 1 earlier transformations, are a distinct economic offering, the fifth and final one (Refer Figure 4) in the progression of economic value. We observe that finally a transformation is what the out-of-shape person, emotionally troubled person, young managers, hospital patient, and the struggling company all desire in real sense.

As has been seen earlier, the most important part of ‘**transformation**’ is to diagnose the aspirations and then experiences and services follow. As has been observed experiences are not the final economic offering-but customization turn it into ‘**transformation**’ and by staging a series of experiences- companies are better able to achieve a lasting effect on the buyer than through an isolated event. This has been distinctly explained in Figure 4, which completes the progression of Economic value’.

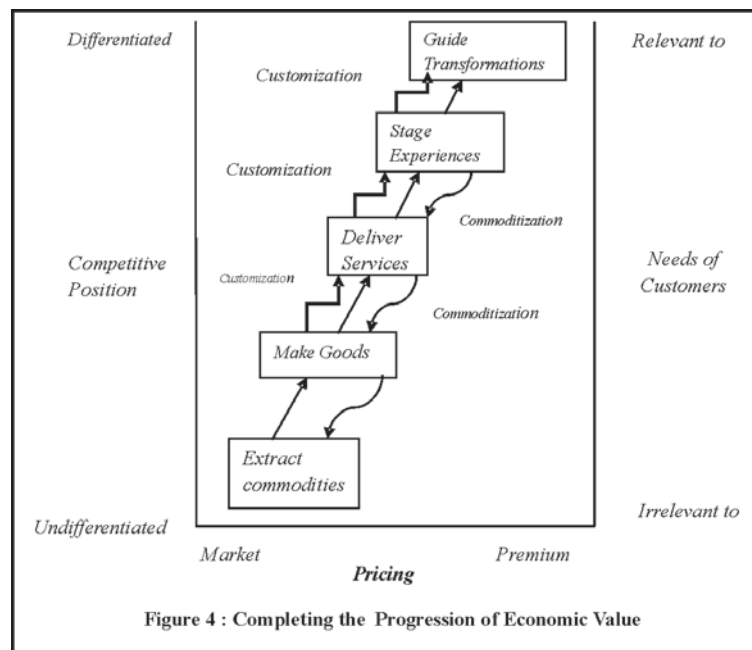


Figure 4 : Completing the Progression of Economic Value

Figure 4: Completing the Progression of Economic Value

Case Study I: Birth Day Party and Other Examples

Taking the case of our birthday party experience, herein as we have seen from home made cake to more and more companies compete with the staged birth day events offered by Club Disney, Game works, Chuck, E Cheese's Event organizations etc- graduating to farm parties, social get- togethers etc- enhancing the customer's transformation elicitor. These can also add incremental values year by year. Some examples are:

- Other example of such a transformational power of offerings are in organizing programmes for children like Karate, King fu, Taek-won do, etc. where parent send their wards for making them more skilled. These martial arts instills discipline, also in the younger generations.
- Food industries, they graduate from simple dining in experiences to providing services, staged by theme restaurants and even change into nutritional values transformational offerings – reduce cholesterol, fat, weight and similar health measures.
- Similarly, today the book stores have started coffee and espresso bars and also reading rooms, where customers pay for reading in privacy- this is the case of transforming intellectual pursuits.
- Even in the prisons, some organizations are changing and transforming the hardened criminals or even a first time offender into some one who won't return to prison truly is a different kind of economic offerings. This is a case of social transformation.

Case Study II: John Deere

John Deere is a traditional framing industry – making farm machinery. John Deere Company has transformed the experimental gain and has done enormous change in the technology with GPS (global positioning system) with Biosensors and driverless tractors with onboard sensors. This equipment can sense and works on hilly terrain, with repeatable accuracy reducing time,

fuel, labour etc. Thus, there is a less trace for field preparation, cultivation and spraying - making farmers more productive, minimizing their cost per acre.

The new technology by integrating remote diagnostics into the systems, John Deere can warn farmers of likely equipment failures, avoiding costly surprises during planting or harvesting. It has '**geofencing capabilities**'. It can also alert farmers about any theft taking place.

John Deere also plants the four building blocks of the value of co-creating space DART which is dialogue, access, risk and transparency. Access and transparency are in-herent in the system. Dialogue is evolving. Thus, herein the co-creation experience system access and transparency are right there and the other two factors, dialogue and risk assessment are evolving overtime. Thus, it will be observed that John Deere example amply illustrates the possibility of co-creating unique value via an innovative experience network.

The John Deere example suggests the following experience network.

- It is a 'well integrated experience' enables for co-constructing a unique personalized experience.
- It also works towards consumer company interaction and the heterogeneity of experience facilitating unique experience.
- It has flexibility to adapt and rapidly reconfigure resources, accommodating wide swings / changes in consumer demand in the experience space.
- It has the ability to selectively activate completeness required for the co-construction of personalized experience.

Case Study III: Social Enablers of Experiences - Tesco

Tesco, a global food retailing chain, has done a remarkable job of balancing local customization with the cost efficiencies of standardization. Tesco has made it possible for its consumer to order groceries on line and have them delivered at home.

Tesco has also made an innovative experience – co-creation of experience from the customer. This company has made an experiment. If an item is ordered on line and is unavailable the store picking system suggest an alternative and this item is placed on top of the order so that the consumer can easily see accept or reject it upon delivery, the delivery vans are optimally routed within a two hour window cycle to ensure that perishables stay as fresh as possible.

Tesco is a good example of experiential innovation that is not only efficient but also focused on the consumer's experience (Prahalad *et al.*2004,; Toffler1990). Alvin Toffler has coined a word '*prosumer*' by a new fusion of word producer and consumer. Toffler's power- shift addresses many novel, new and imaginative, creative thought provoking issues.

Case Study IV: Information Technology Flexibility Experience: CISCO

The company's innovative networked information technology(IT) system has made CISCO uniquely responsive, reliable and close its books in twenty-four hours any day in the year.(Prahalad,2004).

CISCO has undertaken an ambitious multi-million-dollar project called e-HUB (which actually started before the debacle of 2008), designed to eliminate bidding wars for scarce components of operating in real times with another new system, Partner Interface Process (PIP), which provides unprecedented transparency to multiple orders, Cisco supply-chain manufacturing cycle begin with PIP sending demand forecast to both contract manufacturers and component makers up the chain.

Ultimately, Cisco is going to automate the whole product fulfillment process, so that online

transaction may take place with all the updated Cisco's financial database and supply chain system.

Cisco also recognizes that it must accept demand volatility and the new found customer's experiential & co-creation power at the point of exchange. Companies must build flexibility into their IT systems and into the entire manufacturing, supply chain, and logistics infrastructure. It is a dire essential and necessary condition to compete in the experience space, balancing flexibility and accountability is a must for any comparison in the changing business scenario.

To summarize, some inherent and inbuilt thrusts points; are listed below as main building-blocks of maintaining the flexibility in IT capabilities infrastructure of any lead companies (which are self-explanatory):

- The system should facilitate event and experience-based interaction with data so as to generate adequate insights for manager's functionality.
- Multi-dimensional transparency should be embedded from points of consumer-company interaction.
- Managing skills, values & belief are most desirable.
- There should be flexible balance between Innovation and efficiency.

For becoming experience centric company one should;

- Cope with flexible and rapid change in the competitive landscape of business turbulence.
- Balance Flexibility and Accountability.
- Building governance capabilities.
- Managing product-migration paths with experience of customers.

And, finally managing the mind-set (paradigm shift of) for effective and desired transformation.

Fusion of Wisdom into Progression of Economic Value and Valuable Intelligence Model

Once 'wisdom' is injected into transformation, it has manifestations in different imaginative experiential dimensions. Wisdom may be defined as "the quality of being wise especially in relation to conduct and the choice of means and ends; the combinations of experience and knowledge with the ability to apply them judiciously, sound judgment, prudence, practical sense." Transformation elicitors require wisdom to spread all over and across all phases of its experiential dimensions. Eventually wisdom navigates and helps achieving aspirations

Figure 5 shows the progression of the economic value and valuable intelligence model - comparing each echelon of economical value pyramid with like the echelon of intelligence pyramidal values. (Knowledge Pyramid). The fusion of both the pyramids imparts valuable and new creative imaginal parameters. Merging data-base-data-processing informational technology to knowledge experiential information and finally to 'evolvability', embedding intelligence to the design of products and computer system leverages the experiential learning (co-creation of experience value) to a newer dizzy heights.

Herein, as we observe commodities correspond to noise with no meaning; data corresponds to goods (of industrial revolution mentioned by Toffler, as agrarian and knowledge revolutions 1990). Further information, is to services and knowledge, correspond to 'experience'. Finally, wisdom and transformations of customer are single most dominant factor for ushering in any change of the customers. Thus, we observe that nothing is more important than the wisdom required to transform customers. Also, there is no earthly value more concrete more palpable or more

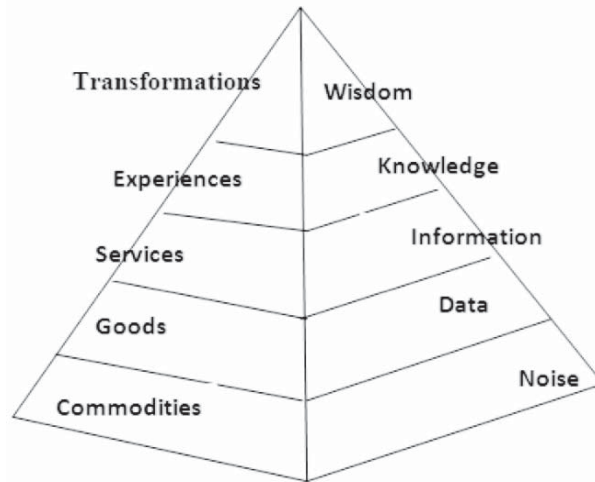


Figure 5: The Progressions of Economic Value and Valuable Intelligence

worthwhile than achieving an aspiration (Pine II *et al.*1999).

We, finally, observe that ‘accumulated wisdom’ is the only key parameter which transforms the customer. Thus, being in the transformation business means charging for the ‘demonstrated outcome’. Wisdom with transformations further leads to spiritual enlightenment / manifestations (Pathak, *et al.*2011).

You Really are what you charge for

As we know very few enterprises are there who work for changing the people or companies-which truly are in the transformation business. Very few charge for the transformation itself. For example, if a fitness centre were truly in transformation business they will not only be concerned about fees, or time the customer spends in the centre but whether they meet the health & well-being aspirations of the members. Thus, you really are what you charge for. Also, various experiential echelon of the customer value means:

- If you charge for ‘stuff’ then you are in the commodity business.
- If you charge for ‘tangible things’ then you are in the goods business.
- If you charge for the activities you execute, then you are in the service business.
- If you charge for the ‘demonstrated outcome the customer achieves’ then and only then you are in the transformational business.

It is not easy being in the business of transforming customer. Extracting commodities out of the ground may be difficult physically but eliciting transformations out of the customers is the most intellectually demanding - it sometimes demands great physical (for example- Fitness centre) and emotional (hospitals) demands as well.

Conclusions

Experience economy normally deals with the economy wherein products are differentiated through the quality of the product and ‘consumer experience’ and is customer – oriented. It can be compared with agrarian, industrial, and finally service - oriented co-creation of experience of the consumers.

Herein, we can class them to: commodities as fungibles; goods 'tangible' services intangible and experience as in 'memorable' categories. Transformation is one where customers feel more delighted and can achieve their aspirations. Once transformation is fused with wisdom it attains higher echelon especially with co-creation of experience and evolvability of design of the product.

It is trite saying that 'you really are what you charge for'. Being in the transformation business means charging for the demonstrated outcome.

Flexibility of IT experience brings out some salient parameters like coping with rapid change in the competitive landscape of business turbulence; balancing flexibility and accountability, flexible balancing between innovation and efficiency and finally managing the paradigm shift – mindset – for effective and desired transformation.

The paper, finally, deals with four case studies: birthday party, John-Deere, Tesco and CISCO and IT Flexibilities eventually as model of the progress of economic values and valuable intelligence which has been evolved and briefly discussed in the paper.

References

- Alvin, Toffler (1990) *Power Shift*, M/s Bantam Books, (USA).
- Hammer, Michael (2001) *The Agenda*, Random House London (UK).
- <http://en.wikipedia.org. enterpriseconomy> (03 April 2011).
- Kolter, Philip and Casoline, J.A. (2009) *Chaotics*, M/S Amacon, New York (USA).
- Pathak RC and Pathak, Rajesh (2012), "Transition of Emerging Economies- An Introspections". *Conference proceeding- Glogift 12*, July-Aug 2012, University of Vienna Austria.
- Pathak, RC and Shreya, Virani (2011) Harnessing Intangible Assets from Coping New Age of Innovation for Corporate Nirvana, *International journal for Computer Application and Management*, VNI no.1 pp.7.7-7.8, Pune INDIA.
- Pine II, B. Joseph and Gilmore, JN (1999) *The Experience Economy*, HBS press, Boston, MA (USA).
- Prahalad, CK and Ramaswamy, Venkat (2004), "The Future of Competition - Co-creating Unique Value with Customer", HBS press Boston, MA (USA).
- Schmitt, B (2003) *Customer Experience Management*, The Free Press, New York, (USA).
- Wikipedia-Enterprises Economy.